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TREASURY FOR OASIA/CUSHMAN  
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SUBJECT: WUHAN RIPE FOR GROWTH, SAY U.S. BUSINESS  
REPRESENTATIVES IN CENTRAL CHINA

#### SUMMARY

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1. (SBU) Wuhan's economy continues to grow rapidly, and the city's investment climate is increasingly attractive to foreign enterprises, according to Wuhan-based U.S. business representatives. Extensive infrastructure, a strong industrial base, low labor costs, and a helpful local government spur Wuhan's macroeconomic growth, they said. U.S. businesses currently face little competition in the sectors where they compete. They added that establishing a permanent USG presence in the city would help expand economic influence in Central China. END SUMMARY.

#### TRAVEL TO HUBEI

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2. (SBU) Econ Macroeconomic Unit Chief, Econoff, Econ Assistant, and Conoff traveled to Wuhan, Hubei Province, from October 31 to November 2. FCS Commercial Assistant arranged a briefing with American businessmen and site visits to Budweiser's China headquarters and the Cummins East Asia Research and Development Center for Emboffs on November 2.

#### WUHAN'S MACROECONOMIC ADVANTAGES

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3. (SBU) American business representatives said that Wuhan, located in Central China's Hubei Province on the banks of the Yangtze River, has experienced rapid economic change in the past three to four years. They cited Wuhan's extensive transportation infrastructure (which includes barge, rail, and road networks), strong industrial base, rich human capital resources drawn from high-quality universities, low labor costs relative to Eastern China, and available land as inherent advantages driving Wuhan's growth. Katherine Bo, Deputy General Manager of Budweiser Wuhan International Brewing Company, stated that Wuhan's transportation network is an important asset for distributing consumer products, allowing Budweiser to have full national distribution from just one brewery. Thomas Conlon, CEO of Ironman Windmills, echoed

others' sentiments, saying that Wuhan's relative low labor costs encouraged him to establish Wuhan as his company's headquarters in 2001.

14. (SBU) Brian Xiaobo Sun, General Manager of the Cummins East Asia Research and Development Center, added, however that while labor costs generally are 20 to 30 percent lower in Wuhan than in Shanghai, companies must revise their salary scales upwards if they want to hire and retain talented people. Sun pays Shanghai-equivalent salaries to many of his engineers in order to encourage them to remain at Cummins in Wuhan.

#### LOCAL GOVERNMENT SUPPORTIVE...MOST OF THE TIME

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15. (SBU) The U.S. business representatives said that an additional economic advantage in Wuhan is the local government's supportive attitude towards investors. Sun noted that Wuhan's business-oriented Communist Party Secretary, Miao Wei, previously was the President of Dongfeng Motor Company, while Luo Qingquan, the Governor of Hubei Province, visited the United States in September 2006 on a trade mission. Budweiser's Bo stated that local government officials act quickly and proactively whenever Budweiser raises any concerns.

16. (SBU) Cedric Alexanian, Engineering Group Leader at SMW Automotive, stated that the local government is generally supportive, but for smaller foreign wholly-owned enterprises without the benefit of a joint

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venture partner, the investment process is not always a smooth one. According to Alexanian, the local government continues to charge SMW a 26 percent import duty for equipment that he and his company believe should be tax-exempt.

#### AMERICAN ECONOMIC INFLUENCE IN WUHAN GROWING

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17. (SBU) Representatives of large companies such as Cummins noted the absence of strong competition from either foreign or domestic firms in their sectors, and said they believe they serve an important role in the market and will grow rapidly as Wuhan grows. Other less well-known companies such as Ironman Windmills and SMW Automotive said they are pleased by the number of U.S. companies in Wuhan, but they registered some concerns about competition from French and German companies in other parts of Central China (see septel on French trade and investment in Wuhan).

18. (SBU) Company representatives noted the expanding reach of U.S. businesses in Wuhan. According to Alexanian, SMW Auto currently is representing Alcoa in a potential deal to establish an aluminum foundry in Wuhan that would target the Asian market. Sun stated that Cummins soon will build a new fuel systems plant in the Wuhan Economic and Technological Development Zone. David Wu, who previously worked at IBM in New York City for six years and serves currently as the Assistant Mayor of Chi Bi City outside Wuhan, said that Arlington, Virginia-based Friedman Billings Ramsey (FBR) Investment Bank likely will open its China headquarters in Wuhan in the next few months.

#### U.S. COMPANIES GRATEFUL FOR USG SUPPORT

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19. (SBU) Wuhan-based representatives of U.S. companies said they are grateful for Embassy support in recent years, including expedited visas through the American

Chamber of Commerce program and the opening of the Foreign Commercial Service's International Partner Network in Wuhan. Sun also singled out the possibility of the establishment of a permanent USG presence in Wuhan as a positive development that would help American companies, in partnership with the USG, expand U.S. economic influence in Central China.

RANDT